

AMENDED

Michigan Dept. of Treasury, Local Audit & Finance Division
496 (3-98), Formerly L-3147

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name HOMER TOWNSHIP	County MIDLAND
Audit Date AUG 26, 2005	Opinion Date OCT 19, 2005	Date Accountant Report Submitted to State:	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☒ yes ☐ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGR).			X

Certified Public Accountant (Firm Name) BURNSIDE & LANG, P.C. <i>M. Burnside CPA, CSEP</i>			
Street Address 5915 EASTMAN AVE. SUITE 100	City MIDLAND	State MI	ZIP 48640
Accountant Signature			

Homer Township
Midland County, Michigan

=====

Financial Statements

June 30, 2005

**HOMER TOWNSHIP
TOWNSHIP OFFICIALS**

OFFICERS

Julie Atkinson, Supervisor
Todd Lee, Clerk
Albert Tew, Treasurer

TRUSTEES

Helen Mudd
Tom Pritchard
John Stern
Russ Varner

**POPULATION-2000
3,924**

**STATE EQUALIZED VALUATION-2004
\$ 109,712,517**

**STATE TAXABLE VALUE-2004
\$ 88,600,418**

**HOMER TOWNSHIP
MIDLAND COUNTY, MICHIGAN
AUDITED FINANCIAL STATEMENTS
June 30, 2005**

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Independent Auditors' Report

Members of The Township
Board of Trustees
Homer Township
Midland County, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Township (the "Township"), Midland County, Michigan, as of and for the year ended June 30, 2005, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's Board. Our responsibility is to express an opinion on these financial statements based on our audit.

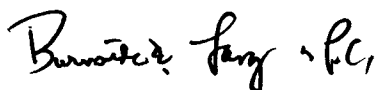
We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The financial statements referred to above do not include the Management Discussion and Analysis, which is required supplementary information and should be included in order to conform with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Homer Township, Midland County, Michigan, as of June 30, 2005, and the respective changes in financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No.34, Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments, as of June 30, 2005.

The budgetary comparison information on pages 18 and 19 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. The other supplementary information listed in the table of contents is presented for purposes of additional analysis and are not a required part of the financial statements of Homer Township. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



Midland, Michigan
August 26, 2005

HOMER TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

	Governmental Activities
ASSETS	
Cash and cash equivalents	\$ 2,374,756
Accounts receivable, net	9,835
Taxes receivable, net	297
Assessments receivable, net	6,053,419
Other receivables, net	41,624
Due from other governmental units	-
Prepaid items	23,043
Capital assets:	
Land and improvements	393,154
Buildings and improvements, net	1,989,609
Equipment, net	118,439
Vehicles, net	234,808
Water system, net	9,138,750
Total capital assets	<u>11,874,760</u>
Total assets	<u>20,377,733</u>
LIABILITIES	
Accounts payable	87,092
Accrued expenses	21,129
Deferred revenue	6,053,419
Long-term liabilities:	
Portion due or payable after one year:	
Bonds and contracts payable	<u>9,082,450</u>
Total liabilities	<u>15,244,090</u>
NET ASSETS	
Invested in capital assets, net of related debt	2,792,310
Restricted for:	
Debt service	1,249,953
Unrestricted	<u>1,091,380</u>
Total net assets	<u>\$ 5,133,643</u>

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005

Activities:	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Governmental:					
General government	\$ 314,170	\$ 35,942	\$ -	\$ -	\$ (278,228)
Public safety	183,783	27,078	-	-	(156,705)
Public works	689,386	-	-	-	(689,386)
Community and economic development	9,308	-	-	-	(9,308)
Recreation and culture	51,151	-	-	-	(51,151)
Interest and fiscal charges	396,154	-	-	-	(396,154)
Total governmental activities	\$ 1,643,953	\$ 63,020	\$ -	\$ -	(1,580,932)
General revenues:					
Property taxes, levied for general purposes					411,049
State aid					277,928
Investment earnings					397,131
Miscellaneous					365,359
Special assessments					558,925
Total general revenues					2,010,392
Change in net assets					429,460
Net assets-beginning					4,704,183
Net assets-ending					\$ 5,133,643

The accompanying notes are an integral part of these financial statements.

**HOMER TOWNSHIP
GOVERNMENTAL FUND BALANCE SHEET
June 30, 2005**

	<u>General</u>	<u>Fire Department</u>	<u>Other Governmental Funds</u>	<u>Total</u>
ASSETS				
Cash and cash equivalents	\$ 380,407	\$ 157,857	\$ 1,836,492	\$ 2,374,756
Accounts receivable, net	9,835	-	-	9,835
Taxes receivable, net	297	-	-	297
Assessments receivables, net	-	-	6,053,419	6,053,419
Due from other funds	89,033	-	-	89,033
Other receivables	41,624	-	-	41,624
Prepaid items	23,043	-	-	23,043
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 544,239</u>	<u>\$ 157,857</u>	<u>\$ 7,889,911</u>	<u>\$ 8,592,006</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 66,758	\$ 15,302	\$ 5,032	\$ 87,092
Accrued expenses	18,609	2,520	-	21,129
Due to other funds		85,298	3,735	89,032
Deferred revenue	-	-	6,053,419	6,053,419
Total liabilities	<u>85,367</u>	<u>103,120</u>	<u>6,062,186</u>	<u>6,250,672</u>
Fund balances:				
Reserved for:				
Unreserved and undesignated	458,872	54,737	1,827,725	2,341,334
Total fund balances	<u>458,872</u>	<u>54,737</u>	<u>1,827,725</u>	<u>2,341,334</u>
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities and fund balances	<u>\$ 544,239</u>	<u>\$ 157,857</u>	<u>\$ 7,889,911</u>	<u>\$ 8,592,006</u>

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
June 30, 2005

Total fund balances for governmental funds (Exhibit 3)	\$	2,341,334
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds. Those assets consist of:

Land and improvements	\$	393,153	
Buildings and improvements, net of \$532,228 accumulated depreciation		1,989,609	
Equipment, net of \$232,987 accumulated depreciation		118,439	
Vehicles, net of \$144,130 accumulated depreciation		234,808	
Water system, net of \$1,078,560 accumulated depreciation		9,138,750	
Total capital assets			11,874,759

Long-term liabilities applicable to the Township's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets.

Balances at June 30, 2005 are:

Road special assessment bonds, 7/7/1993	\$	(20,000)	
District 1 water supply bonds, 9/1/1997		(3,487,450)	
Districts 3 & 4 water supply bonds, 2/1/2003		(2,915,000)	
Districts 6 & 7 water supply bonds, 11/1/2003		(2,660,000)	
			(9,082,450)

Total net assets of governmental activities (Exhibit 2)	\$	5,133,643
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The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES
IN FUND BALANCES
For the Year Ended June 30, 2005

	General	Fire Department	Other Governmental Funds	Total
REVENUES				
Property taxes and related fees	\$ 320,532	\$ 84,482	\$ 6,035	\$ 411,049
Licenses and permits	-	-	27,078	27,078
State aid	277,928	-	-	277,928
Charges for services	35,942	-	-	35,942
Interest and dividends	4,273	666	392,192	397,131
Rents and royalties	2,580	-	-	2,580
Special assessments, net	-	13,787	545,138	558,925
Miscellaneous	115,285	73,673	173,821	362,779
Total revenues	<u>756,541</u>	<u>172,608</u>	<u>1,144,264</u>	<u>2,073,413</u>
EXPENDITURES				
General government	309,826	-	-	309,826
Public safety	3,288	69,622	21,763	94,673
Public works	305,878	-	223,589	529,467
Community and economic development	5,127	-	-	5,127
Recreation and culture	46,621	-	-	46,621
Capital outlay	45,485	68,639	853,977	968,100
Debt service	-	-	661,153	661,153
Total expenditures	<u>716,224</u>	<u>138,261</u>	<u>1,760,482</u>	<u>2,614,967</u>
Excess (deficiency) of revenues over expenditures	<u>40,316</u>	<u>34,347</u>	<u>(616,218)</u>	<u>(541,554)</u>
OTHER FINANCING SOURCES (USES)				
Transfers-in	-	-	108,773	108,773
Transfers-out	-	-	(108,773)	(108,773)
Total other financing sources and uses	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in fund balances	40,316	34,347	(616,218)	(541,554)
Fund balances-beginning	<u>418,556</u>	<u>20,390</u>	<u>2,443,943</u>	<u>2,882,889</u>
Fund balances-ending	<u>\$ 458,872</u>	<u>\$ 54,737</u>	<u>\$ 1,827,725</u>	<u>\$ 2,341,334</u>

The accompanying notes are an integral part of these financial statements.

**HOMER TOWNSHIP
RECONCILIATION OF THE STATEMENT OF REVENUE,
EXPENDITURES, AND CHANGES IN FUND BALANCES
OF GOVERNMENTAL FUNDS TO THE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2005**

Net change in fund balances - total governmental funds (Exhibit 4)	\$ (541,554)
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The change in net assets reported for governmental activities in the statement of activities is different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay (\$968,101) exceeded depreciation (\$262,087) in the current period.	706,014
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Debt proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.

Repayments:

Road special assessment bonds, 7/7/1993	5,000	
District 1 water supply bonds, 9/1/1997	240,000	
Districts 3 & 4 water supply bonds, 2/1/2003	20,000	
		265,000

Change in net assets of governmental activities (Exhibit 2)	\$ 429,460
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The accompanying notes are an integral part of these financial statements.

**HOMER TOWNSHIP
STATEMENT OF FIDUCIARY NET ASSETS
June 30, 2005**

	<u>Current Tax Collection</u>
ASSETS	
Cash and cash equivalents	\$ 598
Total assets	<u>598</u>
LIABILITIES	
Due to other funds	<u>598</u>
Total liabilities	<u>598</u>
NET ASSETS	<u><u>\$ -</u></u>

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
NOTES TO FINANCIAL STATEMENTS
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Homer Township conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by Homer Township:

A. Reporting Entity

Homer Township (the "Township") was organized in 1862 and covers an area of approximately 18 square miles. The Township is governed by an elected seven-member board. The Township provides services to its various residents in many areas, including general government, public safety, public works and recreation and culture. As required by GAAP, these financial statements present the Township, which has no component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in Governmental Accounting Standards Board (GASB) Statement No. 14, *"The Financial Reporting Entity."*

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the government. For the most part, the effect of interfund activity has been removed from these statements.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The Township property tax is levied each December 1st on the taxable valuation of property (as defined by State statutes) located in the Township as of the preceding December 31st.

The 2004 taxable valuation of the Township totaled \$88.6 million on which ad valorem taxes levied consisted of 2.0427 mills for operating purposes. These amounts are recognized as revenue in the general, fire, and road project funds.

The government reports the following major funds:

General Fund - This fund is used to account for all financial resources except those provided for in another fund. Revenues are primarily derived from property taxes, state aid, and charges for services to provide for the administration and operation of: (1) general township governmental departments, boards and commissions; (2) public safety; (3) public works; and (4) recreation and culture. The fund includes the general operating expenditures of the Township.

Fire Fund - This fund is used to account for specific revenue sources generally derived from property taxes, general fund appropriations and charges for services, which are to be expended for specific purposes as dictated by legal, regulatory, or administrative requirements.

Additionally, the government reports the following fund types:

Debt Service Funds – These funds account for recording long term debt expenditures for the Township.

Capital Project Funds - These funds are used to account for the acquisition or construction of major facilities other than those financed by proprietary fund operations.

Current Tax Collection Fund – This fund is an agency fund used to account for resources held by the Township in a purely custodial capacity. Money in this fund is from current tax and special assessment collections. Timely distribution to the appropriate fund and local unit must be made in accordance with Section 43 of the General Property Tax Act.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amounts reported as program revenue include charges to customers or applicants for goods, services or privileges provided. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Net Assets

Bank Deposits and Investments—Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables and Payables—In general, outstanding balances between funds are reported as “due to/from other funds.” Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as “advances to/from other funds.”

All trade and property tax receivables are shown net of allowance for uncollectible amounts. Property taxes are levied on each December 1st on the taxable valuation of property as of the preceding December 31st. Taxes are considered delinquent on March 1st of the following year, at which time penalties and interest are assessed.

Capital Assets—Capital assets, which include property, plant, and equipment are reported in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

Buildings	30 to 40 years
Building improvements	30 to 40 years
Water systems	50 years
Fire apparatus	25 years
Fire equipment	5 to 30 years
Mowing equipment	10 to 20 years
Office equipment	5 to 20 years
Computer equipment	5 to 10 years

Long-Term Obligations—In the government-wide financial statements long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Equity—In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

NOTE 2. LEGAL COMPLIANCE

The annual budget is prepared by the Township's management and adopted by the Township Board; subsequent amendments are approved by the Township Board. The annual operating budget has been prepared in accordance with generally accepted accounting principles. Unexpended appropriations lapse at year-end; encumbrances are not included as expenditures. During the current year, the budget was amended in a legally permissible manner.

Excess of Expenditures Over Appropriations in Budgeted Funds

The Uniform Budgeting and Accounting Act, PA 2 of 1968, as amended (MCL 141.421 et seq.), provides that a local unit shall not incur expenditures in excess of the amount appropriated. The Township's actual expenditures and budgeted expenditures for the funds budgeted have been shown on a functional basis. The approved budgets of the Township for these budgeted funds were adopted to the activity level.

During the year, the Township incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budgeted Item</u>	<u>Budget Appropriation</u>	<u>Actual Expenditure</u>
General Fund - Treasurer	\$ 31,738	\$ 32,384
General Fund - Capital Outlay gen.	26,000	35,013
Fire Dept. Fund - Salaries & Wages	13,000	17,666
Fire Dept. Fund - Payroll Taxes	505	1,042
Fire Dept. Fund - Retirement	798	1,147
Fire Dept. Fund - Dues & Subscriptions	570	1,255
Fire Dept. Fund - Insurance	11,000	12,077
Fire Dept. Fund - Utilities	13,000	16,765
Fire Dept. Fund - Repairs & Maint.	6,000	9,324
Fire Dept. Fund - Capital Outlay	55,000	68,639

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 3. DEPOSITS AND INVESTMENTS

The Township's deposits and investments are presented on the balance sheet under the following categories:

	Governmental Activities	Fiduciary Funds	Total
Cash and Cash Equivalents	\$ 2,374,158	\$ 598	\$ 2,374,756

The breakdown between deposits and investments is as follows:

Bank Deposits (Checking Accounts, Savings Accounts, and Certificates of Deposit)	\$ 2,374,756
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Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States Banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchased; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township has designated five banks for the deposit of Township funds. The investment policy adopted by the Township Board in accordance with Public Act 196 of 1997, has authorized investments in certificates of deposit, savings accounts, local government investment pools organized under PA 121, MCL 129.141 to 129.50, deposit accounts, or depository receipts of a bank but only if the bank, savings and loan association, or credit union meets all criteria as a depository of public funds contained in state law.

The Township's deposits and investments are in accordance with statutory authority.

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

Insured (FDIC)	\$ 401,958
Uninsured and Uncollateralized	1,972,798
Totals	<u>\$ 2,374,756</u>

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 4. CAPITAL ASSETS

A summary of changes in general capital assets follows:

Governmental Activities	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets Not Being Depreciated				
Land	\$ 393,154	\$ -	\$ -	\$ 393,154
Capital Assets Being Depreciated				
Buildings and improvements	2,478,000	43,837		2,521,837
Equipment	301,021	50,405		351,426
Vehicles	359,056	19,882		378,938
Water system	9,363,333	853,977		10,217,310
Subtotal	12,501,410	968,101	-	13,469,511
Less Accumulated Depreciation for				
Buildings and improvements	470,233	61,998	-	532,228
Equipment	207,516	25,471	-	232,987
Vehicles	129,429	14,701	-	144,130
Water system	918,640	159,920	-	1,078,560
Subtotal	1,725,818	262,087	-	1,987,905
Net Capital Assets Being Depreciated	10,775,592	706,014	-	11,481,606
Governmental Activities Capital Assets-Net of Depreciation	\$ 11,168,746	\$ 706,014	\$ -	\$ 11,874,760

NOTE 5. INTERFUND TRANSFERS, RECEIVABLES AND PAYABLES

The amounts of the interfund receivables and payables are as follows:

Fund	Interfund Receivable	Fund	Interfund Payable
General Fund	\$ 89,631	Building Codes	\$ 1,049
		Fire Fund	85,298
		Capital Project 6 & 7	2,686
		Tax Collection Fund	598
Total	\$ 89,631	Total	\$ 89,631

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 6. RISK MANAGEMENT

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers compensation). The Township purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE 7. EMPLOYEE RETIREMENT PLAN

Homer Township provides pension benefits to all township officials and employees except for volunteer firemen and seasonal employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Contributions to the Plan are based on a scale set up in the pension adoption agreement for different levels of compensation. Employees can also make voluntary contributions to the plan. Upon early retirement or termination of service, other than because of death, disability, or normal retirement, benefits in the plan vest immediately at 100%. For the year ended June 30, 2005, the cost to the Township for this plan, including administrative charges, was \$24,700.

NOTE 8. SPECIAL ASSESSMENTS RECEIVABLES

Special assessments were assessed to the taxpayers of Homer Township to be used for the construction of new water districts. The assessments resulted in receivables totaling \$6,053,419 for the Township as of June 30, 2005 (see Exhibit 8). These receivables are shown as current assets with an offset of a deferred liability, on the June 30, 2005 Combined Government Wide Statement of Net Assets.

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 9. LONG-TERM DEBT

The individual fund long-term debt and other general long-term obligations of the Township and the changes therein, are summarized as follows:

	July 1, 2004	Additions (Reductions)	June 30, 2005
Road Special Assessment Bonds, dated July 7, 1993 in the amount of \$80,000 to finance a road construction project. Principal payments are due annually on May 1, with an interest rate ranging from 3.85% to 5.85%, payable May 1 and November 1	\$ 25,000	\$ (5,000)	\$ 20,000
District 1 Water Supply System Bonds with Midland County, dated September 1, 1997 in the amount of \$4,990,000 to finance construction of a water system project. Principal payments are due annually on August 1, with an interest rate ranging from 4.6% to 6.0%, payable February 1 and August 1	3,727,450	(240,000)	3,487,450
Districts 3 and 4 Water Supply System Bonds with Midland County, dated February 1, 2003 in the amount of \$2,955,000 to finance construction of a water system extension. Principal payments are due annually on August 1, with an interest rate ranging from 3.5% to 4.75%, payable February 1 and August 1	2,935,000	(20,000)	2,915,000
Districts 6 and 7 Water Supply System Bonds with Midland County, dated November 1, 2003 in the amount of \$2,660,000 to finance construction of a water system extension. Principal payments are due annually on August 1, with an interest rate ranging from 2.5% to 4.75%, payable February 1, and August 1	2,660,000	-	2,660,000
Total Long-Term Debt	<u>\$ 9,347,450</u>	<u>\$ 265,000</u>	<u>\$ 9,082,450</u>

HOMER TOWNSHIP
NOTES TO THE FINANCIAL STATEMENTS
June 30, 2005

NOTE 9. LONG-TERM DEBT (Continued)

The annual principal and interest requirements through maturity for all long-term debt outstanding as of June 30, 2005, are as follows:

<u>Year</u>	<u>General Obligations</u>
2005	\$ 660,509
2006	864,068
2007	910,765
2008	889,087
2009	845,698
2010-2015	8,985,803
	<hr/> 13,155,929
Less Interest	4,073,479
	<hr/>
Total	\$ 9,082,450
	<hr/> <hr/>

NOTE 10. AGREEMENT WITH CITY OF MIDLAND

The Township has an agreement with the City of Midland, dated July 29, 1997, whereby the Township, through bonds issued by the County of Midland, will construct and install a water system that is connected to the City's water system. Upon completion of construction and installation acceptance by the City, the water mains within the Township Water Service Area shall remain the property of the Township. The City shall provide all operation, maintenance and service necessary for the proper, efficient and lawful use of the system. In addition, the City will provide and maintain at its expense all meters for measuring water supplied to Township customers. Finally, the City shall bill each Township customer in accordance with the City Code of Ordinances. The billings will consist of a usage charge to be recognized by the City and a debt service and maintenance surcharge of \$90 per year to each customer, which will be used to help make payments on the Water Supply System Bonds. The agreement shall be effective for an initial term of 40 years and may be renewed as mutually agreed upon by both parties.

HOMER TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2005

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 135,100	\$ 135,100	\$ 320,532	\$ 185,432
State aid	280,748	280,748	277,928	(2,820)
Charges for services	18,000	18,000	35,942	17,942
Interest and dividends	1,000	1,000	4,273	3,273
Rents and royalties	3,600	3,600	2,580	(1,020)
Special assessments	180,090	180,090	-	(180,090)
Miscellaneous	19,500	19,500	115,285	95,785
Total revenues	<u>638,038</u>	<u>638,038</u>	<u>756,541</u>	<u>118,503</u>
EXPENDITURES				
General Government:				
Township board	29,368	29,368	25,566	3,803
Supervisor	24,078	24,078	20,774	3,304
Treasurer	31,738	31,738	32,384	(646)
Assessor	26,615	26,615	25,399	1,215
Clerk	36,884	36,884	35,986	899
Elections	9,944	9,944	5,557	4,387
Cemetery	66,565	66,565	60,476	6,089
Buildings and grounds	36,732	36,732	32,690	4,041
All other general government	74,145	74,145	70,994	3,151
Building inspection and regulation activities	3,666	3,666	3,288	378
Public Works:				
Public works	67,603	67,603	13,691	53,913
Solid waste	190,000	190,000	187,555	2,445
Water committee	13,368	13,368	2,872	10,496
Road improvements	133,665	133,665	82,621	51,044
Drains	9,200	9,200	9,179	21
Street lighting	13,500	13,500	9,961	3,539
Community/Economic Development:				
Planning commission	10,277	10,277	3,615	6,662
Zoning board of appeals	3,327	3,327	1,512	1,815
Recreation and Culture:				
Parks and recreation	21,636	21,636	21,352	283
Library	26,000	26,000	25,269	731
Capital Outlay:				
General government	26,000	26,000	35,013	(9,013)
Public works	5,000	5,000	1,073	3,927
Parks and recreation	59,500	59,500	9,399	50,101
Total expenditures	<u>918,809</u>	<u>918,809</u>	<u>716,224</u>	<u>202,585</u>
Excess (deficiency) of revenues over expenditures	<u>(280,771)</u>	<u>(280,771)</u>	<u>40,316</u>	<u>321,087</u>
Fund balances-beginning	<u>418,558</u>	<u>418,558</u>	<u>418,556</u>	<u>-</u>
Fund balances-ending	<u>\$ 137,787</u>	<u>\$ 137,787</u>	<u>\$ 458,872</u>	<u>\$ 321,087</u>

**HOMER TOWNSHIP
BUDGETARY COMPARISON SCHEDULE
FIRE FUND
For the Year Ended June 30, 2005**

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Property taxes and related fees	\$ 89,880	\$ 89,880	\$ 84,482	\$ (5,398)
Interest and dividends		-	666	666
Special assessments	15,000	15,000	13,787	(1,213)
Miscellaneous		-	73,673	73,673
Total revenues	<u>104,880</u>	<u>104,880</u>	<u>172,608</u>	<u>67,728</u>
EXPENDITURES				
Salaries and wages	13,000	13,000	17,666	(4,666)
Payroll taxes	505	505	1,042	(537)
Retirement	798	798	1,147	(349)
Supplies	12,000	12,000	5,449	6,551
Contracted services	360	360	360	-
Spraying	183	183	183	-
Medical services	200	200	-	200
Telephone	2,000	2,000	1,479	521
Mileage and expenses	5,700	5,700	2,765	2,935
Dues and subscriptions	570	570	1,255	(685)
Training	1,000	1,000	111	890
Insurance	11,000	11,000	12,077	(1,077)
Utilities	13,000	13,000	16,765	(3,765)
Repairs and maintenance	6,000	6,000	9,324	(3,324)
Miscellaneous	-	-	-	-
Capital outlay	<u>55,000</u>	<u>55,000</u>	<u>68,639</u>	<u>(13,639)</u>
Total expenditures	<u>121,315</u>	<u>121,315</u>	<u>138,261</u>	<u>(16,945)</u>
Excess (deficiency) of revenues over expenditures	<u>(16,435)</u>	<u>(16,435)</u>	<u>34,347</u>	<u>50,783</u>
 Fund balances-beginning	 <u>20,390</u>	 <u>20,390</u>	 <u>20,390</u>	 <u>-</u>
 Fund balances-ending	 <u>\$ 3,954</u>	 <u>\$ 3,954</u>	 <u>\$ 54,737</u>	 <u>\$ 50,783</u>

**HOMER TOWNSHIP
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2005**

	Special Revenue Fund	Debt Service Funds					Capital Project Funds		Total Nonmajor Governmental Funds
	Building Inspection	1993 Special Assessment Bonds Roads	1998 Water Supply System Bonds District No. 1	2003 Water Supply System Bonds Districts No. 3 & 4	2004 Water Supply System Bonds Districts No. 6 & 7	2002 Installment Purchase Contract Fire Facility	Water Construction Districts No. 3 & 4	Water Construction Districts No. 6 & 7	
ASSETS									
Cash and cash equivalents	\$ 16,826	\$ 16,006	\$ 405,962	\$ 557,873	\$ 275,067	\$ -	\$ 133,208	\$ 431,550	\$ 1,836,492
Assessments receivable, net	-	19,712	1,524,382	2,385,715	2,123,610	-	-	-	6,053,419
Due from other funds	-	-	-	-	-	-	-	-	-
Due from other governmental units	-	-	-	-	-	-	-	-	-
Other receivables	-	-	-	-	-	-	-	-	-
Prepaid items	-	-	-	-	-	-	-	-	-
Total assets	\$ 16,826	\$ 35,718	\$ 1,930,344	\$ 2,943,588	\$ 2,398,677	\$ -	\$ 133,208	\$ 431,550	\$ 7,889,911
LIABILITIES AND FUND BALANCES									
Liabilities:									
Accounts payable	\$ 77	\$ -	\$ -	\$ -	\$ 4,955	\$ -	\$ -	\$ -	\$ 5,032
Due to other funds	1,049	-	-	-	-	-	-	2,686	3,735
Deferred revenue	-	19,712	1,524,382	2,385,715	2,123,610	-	-	-	6,053,419
Total liabilities	1,126	19,712	1,524,382	2,385,715	2,128,565	-	-	2,686	6,062,186
Fund balances:									
Reserved for:									
Unreserved and undesignated	15,700	16,006	405,962	557,873	270,112	-	133,208	428,864	1,827,725
Total fund balances	15,700	16,006	405,962	557,873	270,112	-	133,208	428,864	1,827,725
Total liabilities and fund balances	\$ 16,826	\$ 35,718	\$ 1,930,344	\$ 2,943,588	\$ 2,398,677	\$ -	\$ 133,208	\$ 431,550	\$ 7,889,911

The accompanying notes are an integral part of these financial statements.

HOMER TOWNSHIP
COMBINING STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
For the Year Ended June 30, 2005

	Special Revenue Fund	Debt Service Funds					Capital Project Funds		Total Nonmajor Governmental Funds
	Building Inspection	1993 Special Assessment Bonds Roads	1998 Water Supply System Bonds District No. 1	2003 Water Supply System Bonds Districts No. 3 & 4	2004 Water Supply System Bonds Districts No. 6 & 7	2002 Installment Purchase Contract Fire Facility	Water Construction Districts 3 & 4	Water Construction Districts 6 & 7	
REVENUES									
Property taxes and related fees	\$ -	\$ 6,035	\$ -				\$ -		\$ 6,035
Licenses and permits	19,763		220	935	6,160		-		27,078
Interest and dividends	-	39	103,157	146,499	131,144		3,109	8,245	392,192
Special assessments, net	-		188,336	170,296	186,507		-		545,138
Miscellaneous (Including Transfers In)	-	(5)	163,166	10,646	15		-		173,821
Total revenues	19,763	6,069	454,878	328,375	323,825	-	3,109	8,245	1,144,264
EXPENDITURES									
Public safety	21,763	-	-				-		21,763
Public works	-	-	84,457	85,190	53,942		-	-	223,589
Capital outlay	-	-	-				15,373	838,604	853,977
Debt service	-	6,857	416,176	137,615	100,505		-		661,153
Total expenditures	21,763	6,857	500,633	222,805	154,447	-	15,373	838,604	1,760,482
Excess (deficiency) of revenues over expenditures	(2,000)	(788)	(45,755)	105,570	169,379	-	(12,264)	(830,359)	(616,218)
OTHER FINANCING SOURCES (USES)									
Proceeds from debt obligations							-		-
Transfers-in				58,520	50,253		-		108,773
Transfers-out			-				(58,520)	(50,253)	(108,773)
Total other financing sources and uses	-	-	-	58,520	50,253	-	(58,520)	(50,253)	-
Net change in fund balances	(2,000)	(788)	(45,755)	164,090	219,632	-	(70,784)	(880,612)	(616,218)
Fund balances-beginning	17,700	16,794	451,717	393,784	50,480	-	203,992	1,309,476	2,443,943
Fund balances-ending	\$ 15,700	\$ 16,006	\$ 405,962	\$ 557,873	\$ 270,112	\$ -	\$ 133,208	\$ 428,864	\$ 1,827,725

The accompanying notes are an integral part of these financial statements.

August 26, 2005

Members of the Township Board
Homer Township
Midland County, Michigan

Dear Board Members:

In planning and performing our audit of the financial statements of Homer Township, for the year ended June 30, 2005, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the Township's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that errors or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of internal control would not necessarily disclose all matters in internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that we believe to be material weaknesses.

REPORTABLE CONDITIONS (MATERIAL WEAKNESSES)

Township Credit Cards

During the March 2004 Board of Trustees meeting, the Board moved to eliminate all retail credit arrangements. During our audit fieldwork we noted the Township still utilizing certain retail credit arrangements. We still recommend the Board of Trustees either follow its own directive and eliminate all retail credit arrangements, or adopt a new credit card policy in accordance with State of Michigan requirements.

Bank Reconciliations

The Township Treasurer still has difficulty reconciling cash balances to the general ledger maintained by the Township Clerk. As stated in the in the Michigan Department of Treasury's *Uniform Accounting Procedures Manual*, "All bank accounts must be reconciled to the local unit accounting records monthly. The Clerk's records must agree with or reconcile to the Treasurer's and the bank's records. A reconciliation sheet should be prepared in duplicate for each month with one copy for the clerk and one copy for the treasurer. Canceled checks are to be filed with the bank statement to which they apply." We recommend the Clerk and Treasurer submit this reconciliation, including the reconciliation of accounts held by Midland County, along with the above reports monthly until the Township Board is satisfied that this necessary reconciliation procedure is being performed on a monthly basis.

Special Assessment Reconciliations

Similar to bank accounts being reconciled to general ledger, special assessment rolls must be reconciled to the general ledger. And similar to the Township Treasurer having difficulty reconciling the bank accounts to the general ledger, he also has difficulty reconciling the special assessment rolls to the general ledger. We again recommend the Board of Trustees purchase new software specifically designed to manage the special assessment process so that this reconciliation process is performed in an accurate and timely manner.

Appropriations in Budgetary Funds

P.A. 2 of 1968, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. We noted during our audit that the Township incurred expenditures in excess of the amount appropriated in the various activity centers of the Fire Fund.

We again recommend the modified accrual basis of accounting be considered when adopting and amending the budget of the Township's governmental type funds. The budget should be amended during the year to reflect expenditures expected to be made in excess of the original budget amounts. These amendments must be approved by the Township Board and documented in the Board's meeting minutes. This will help prevent the Township from incurring expenditures in excess of appropriations.

OTHER MATTERS

The following items, although not considered reportable conditions, are matters we believe worthy of your consideration.

Record Management

It is very important to have an orderly filing system to prevent lost items. During our audit, although we noted some improvements, we again encountered difficulty in locating meeting minutes, special assessment rolls, contracts, invoices and board resolutions. The system can be organized any number of ways, but should be clear, uncomplicated, and evident without reliance on the individual who normally does the filing.

Financial Oversight

The general limitations in any smaller municipalities like Homer Township requires that Township Board members continue to remain involved in the financial affairs of the Township through oversight of operation, development of the annual budget, inquiries about variance between budgeted and actual amounts shown in the financial statements, and the independent review of critical functions, and our comment here is intended to emphasize the importance of this oversight.

Segregate Costs for Water Districts

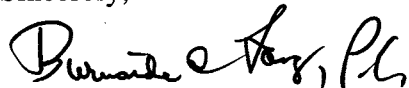
The Township approved Water District #3 and District #4 and District #6 and District #7. Our review indicated that the costs for these projects are still combined in the Township's reporting. Since special assessment districts have been established and it appears that there will be excess funds, we recommend that the Township segregate the costs of these projects so that the Township Board can make an informed decision once the final costs of the projects are known.

Conclusion

These conditions were considered in determining the nature, timing, and extent of the audit tests applied on our audit of the June 30, 2005, financial statements, and this report does not affect our report on those financial statements dated August 26, 2005. We have not considered internal control since the date of our report.

This report is intended for the information of the members of the Township Board, management and the State of Michigan, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Sincerely,

A handwritten signature in black ink, appearing to read "Burnside & Lang, P.C.", written in a cursive style.

BURNSIDE & LANG, P.C.